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MEETING OF JOINT CONFERENCE OF THE
FEDERAL RESERVE BOARD AND THE
OPEN MARKET POLICY CONFERENCE
TUESDAY, April 12, 1932, WASHINGTON, D. C.

333.-C-2
Final Minutes
4/12/32

The meeting was called to order at 10:20 a. m. with Governor Meyer in the Chair.

Those present were
Governor Meyer, Messrs. Hamlin, Miller, James, and Magee,
and Governors Young, Harrison, Norris, Fancher, Seay,
McDougal, Martin, Geery, Hamilton, McKinney, and Calkins,
Messrs. Goldenweiser, Morrill, McClelland, Floyd Harrison
and Smead, and Mr. Burgess, secretary.

The preliminary memorandum on credit conditions and the secretary's report of operations were presented.

Governor Meyer reviewed the open market program which had been pursued since February 24, the return of currency from circulation, progress in the arrest of bank failures, and the lending program of the Reconstruction Corporation. He reviewed also the changes in business and the credit situation, indicating that the decline in credit volume and the decline in business and prices had not stopped. He called attention, merely as a matter of information, to the fact that a resolution had been offered in the Senate asking the Federal Reserve Board to state its program for dealing with the situation and to indicate any legislation necessary. Consideration of this resolution had been postponed. He stated that the Federal Reserve Board felt that the Reserve System could now undertake to do more toward aiding in the recovery than it had yet done, and that he believed the time had come when the System might be expected to use its powers more fully in an effort to stop the credit decline.

Dr. Miller stated that a critical point had been reached in the credit situation, that nearly every other reasonable expedient had been tried and exhausted, but that the full force of Federal reserve action had not yet been exerted

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and he believed the time had come to use the resources of the System courageously.

Mr. Hamlin stated his agreement with Governor Meyer and Dr. Miller.

Mr. James raised a number of questions as to the possible consequences of buying government securities.

Mr. Magee indicated the necessity for an increase in agricultural prices.

There ensued a general discussion, in the course of which Governor Seay emphasized the necessity for gaining the cooperation of the banks in any program adopted.

Governor Young questioned whether purchases of governments which piled up reserves in the centers would result in the distribution of these funds to other parts of the country. He was skeptical of getting the cooperation of the banks without which success appeared difficult, and was apprehensive that a program of this sort would develop the animosity of many bankers, and was apprehensive also that an extensive program of purchases of government securities would impair the confidence of the public in the Reserve banks. He cited the experience of 1931 as an indication of the futility of government purchases.

Governor Meyer responded that the difficulty last summer was that confidence was impaired by the German collapse and by the British departure from the gold basis; so that any program adopted was negatived. He believed that to-day the country was in a more favorable position to take advantage of funds made available. He believed that a strong program would inspire more confidence than distrust, and did not believe that there would be serious opposition by banks.

Governor Harrison stated that he believed that in the present situation the banks were much more interested in avoiding possible losses than in augmenting their current income, and that their attitude had changed gradually since last year in the face of the shrinkage in values.

Governor Meyer stated that he believed a strong program would quicken the currency return and might make it unnecessary to complete the program.

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He also indicated the great value in a unanimous program in which the entire Reserve System took part.

Secretary Mills who had entered the meeting after it had begun stated that he believed a great duty now rested on the Federal Reserve System; that Congress and the Administration had done all they could in developing remedial action, and yet deterioration was taking place steadily. For a great central banking system to stand by with a 70% gold reserve without taking active steps in such a situation was almost inconceivable and almost unforgivable. The resources of the System should be put to work on a scale commensurate with the existing emergency.

At 11:50 the members and staff of the Federal Reserve Board left the meeting, and at 11:55 it reconvened as an Open Market Policy Conference, Governor Harrison presiding.

It was moved and carried that the preliminary memorandum and the Secretary's report be received and incorporated in the records.

Governor Harrison raised question of the condition of banks in various districts and stated that in the second district the condition of the banks was on the whole worse than it had been, due to bond depreciation and to impairment of value of loans heretofore considered prime. Bank failures were being avoided by leniency on the part of the examining authorities and by the activities of the Reconstruction Finance Corporation.

Governor McDougal indicated that the same was true in his district, and what was most urgently required was a turn in basic commodity prices, and especially prices of corn and livestock, and an improvement in the security markets.

Governor McKinney indicated that similar conditions existed in his district. What was required was not so much a large amount of money as a change in mental attitude. Governor Calkins also indicated that he believed the problem was mainly psychological.

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These views were generally assented to by the other governors, who agreed that the situation required action of some sort.

Governor Harrison stated that he believed the only practical program was a dramatic purchase of government securities. He believed that the member banks were ready to cooperate in such a program. The uncertainty as to the budget and bonus legislation had constituted obstacles to inaugurating such a program, but he believed that the outlook in these directions was hopeful, and that it would not be possible or necessary to wait until these two questions were completely solved.

Governor Calkins raised the question whether a policy of this sort would be followed by large foreign withdrawals of funds, and Governor Harrison replied that there might be some withdrawals but he did not believe these would be sufficient to prove embarrassing.

Governor McDougal raised the question whether the Reserve System could retain the confidence of the public after inaugurating a policy of this sort, which was in some measure inflationary, particularly since it involved the use of government securities as collateral for Federal reserve notes.

Governor Harrison cited the practice of foreign countries in using governments as collateral for currency, indicating that the practice was quite general.

In the course of discussion it appeared to be the consensus that if the program was undertaken it should be a system matter involving the use of Section 3 of the Glass-Steagall bill. ✓

There was some informal discussion of discount rates and the opinion was expressed that the present situation was very little influenced by rates but was more largely influenced by the supply of money.

Governor Harrison then presented the following resolution:

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That subject to approval of the Federal Reserve Board the Executive Committee be authorized to purchase up to \$500,000,000 of government securities in addition to the unexpired authority granted at the meeting of the Open Market Policy Conference on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to 100 million in the current statement week.

This resolution was adopted by a vote of 10 to 1, Governor Young voting in the negative.

There ensued discussion as to the desirable policy to be pursued in making general use immediately of Section 3 of the Glass-Steagall bill. It was agreed that no written resolution on that subject should be submitted to the Federal Reserve Board, but that the opinion of the governors should be stated orally that an early use of this section of the bill would be desirable as a means of securing widespread system participation in purchases.

new paragraph

There was some discussion of publicity in connection with the program of purchases of government securities, and Governor Harrison indicated that he was appearing before a sub-committee of the House on the Goldsborough Bill on Wednesday, and it would probably be necessary for him to make some reference to the program at that time.

After some informal discussion of the status of the Glass Bill the meeting adjourned at 1:30 p. m.

The Open Market Policy Conference reconvened at 2:43, there being present the following:

Governors Young, Harrison, Norris, Seay, Fancher, McDougal, Geery, Martin, Hamilton, McKinney, Calkins, and Deputy Governor Burgess.

Governor Harrison called attention to the fact that when the new organization of the Open Market Policy Conference was adopted it was decided that there should be rotation in the membership of the executive committee, and that a year had passed since any change in that committee had been made. It was agreed that the principle of rotation should be continued, but that the present committee membership

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should be continued for another year.

At three o'clock the meeting reconvened as a joint conference of the Federal Reserve Board and the Open Market Policy Conference, and the following entered the meeting:

Governor Meyer, Secretary Mills, Messrs. James, Pole, Hamlin, Magee and Miller, members of the Federal Reserve Board, and Messrs. Goldenweiser, Smead, McClelland and Floyd Harrison, of the Board's staff.

Governor Meyer reported that the Federal Reserve Board had approved the resolution adopted by the conference.

Governor Harrison reported that the governors felt that the program should be widely participated in, which would involve an early exercise of Section 3 of the Glass-Steagall bill. The governors believed that a general participation by the Reserve banks would assist psychologically in making the purchases effective.

Governor Meyer suggested that whatever danger there was in the program lay in the possible interpretation that it was inflationary. From this point of view the danger might be lessened if the first large purchases of bonds did not take place simultaneously with the first use of Section 3 of the Glass-Steagall bill. While the use of that provision would be necessary before long the psychological effect might be better if the two events were separated by a reasonable period of time.

There ensued a discussion of the free gold position of different Reserve banks, on the basis of which it appeared that there was sufficient free gold at present, particularly if further steps were taken in reducing the amount of Federal reserve notes outstanding but not issued, to enable most of the banks to participate in purchases at least in limited amounts for a week or two.

It developed as the consensus
(A general understanding was reached) that the additional purchases of securities to be made during the current statement week under the program which *the F.R. Bank of New York* had been adopted could, if necessary, be absorbed by (those banks having considerable

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which has a substantial amount of free gold
amounts of free gold) and that subject to the approval of their boards of directors next week's purchases should be participated in by all Federal reserve banks to whatever extent might be practicable in view of their respective free gold positions, and beginning with the third or fourth week of the program, each Federal reserve bank should take its pro rata share of securities purchased, it being understood that when the necessity therefor developed the Federal Reserve Board would act promptly upon request from the banks for authority to pledge government securities with the Federal reserve agents as collateral for Federal reserve notes.

The conference was interrupted for a brief meeting of the executive committee which voted that the program of purchasing governments should start immediately, and that in accordance with the resolution orders should be placed at once for \$75,000,000 of government securities for delivery April 13, to bring the purchases in that statement week to a total of \$100,000,000.

The meeting of the joint conference was resumed and Governor Harrison pointed out that the success of the program depended on the use of excess reserves by member banks, and raised the question of what and how much should be done by the Reserve banks in endeavoring to secure member bank cooperation. Generally speaking it seemed to him the wisest course for the Reserve System to carry out its own action vigorously but to leave the action of the member banks largely to their own initiative. Probably discussions with the banks would be desirable to point out the significance of the program and to get their understanding, but it probably would not be desirable to get definite commitments of cooperation from the member banks, because the success of the program depended so much upon a spirit of willingness and a desire for profits on the part of the banks, which would arise best from their own initiative rather than from the Reserve banks' request.

Dr. Miller indicated that the idea of talking with bankers to interpret the program commended itself to him, and he suggested that the wise program would be first to acquaint the directors of the Reserve banks with the purposes to be

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accomplished, and then to talk with key bankers not only in the cities but outside also.

There was general agreement on the part of those present on the desirability of discussion of the Federal reserve program with member bankers.

There ensued an informal discussion of the publicity which might be desirable in connection with this program. It was agreed that a formal statement would not be desirable, but that some informal explanation of the increase in government securities might be desirable in order that it might not be interpreted as connected with some emergency in New York.

The joint conference was adjourned at 4:37 p. m.

At 4:45 the Open Market Policy Conference reconvened, there being present Governors Young, Harrison, Norris, Fancher, Seay, McDougal, Hamilton, Geery, and Deputy Governor Burgess.

Governor Harrison shortly left the meeting.

After discussion the following resolution was adopted with regard to the Glass Bill to be transmitted to the Federal Reserve Board and by it to the Senate Committee on Banking and Currency:

"The Governors of the Federal Reserve Banks, sitting to-day as an Open Market Committee, have necessarily given consideration to Senate Bill No. 4115, and to the suggestions in reference thereto submitted by the Federal Reserve Board.

"There are certain provisions in the bill which we think inadvisable, and certain others which are difficult of interpretation, and whose ultimate effect cannot be foreseen. Even the adoption by the Committee of all the suggestions submitted by your Board would not, in our opinion, entirely remove these difficulties.

"We cannot well discuss the bill in any communication of reasonable length. We respectfully request you, however, to communicate to the Banking and Currency Committee of the Senate, our unanimous concurrence in the opinion expressed by the Federal Advisory Council that the present is an inopportune time to inaugurate such changes in banking practice, and in the relations between the Federal Reserve Board, the Federal reserve banks, and the member banks, as are provided in this bill."

The meeting adjourned at 5:25 p. m.

W. Randolph Burgess